Utilize expert-opinions in projections

Health is key to rising life expectancy

Increase in retirement age is hot topic for employees

Theme: Longevity Risk
Theme: Longevity Risk

Utilize expert-opinions in projections
Health is key to rising life expectancy
Increase in retirement age is hot topic for employees

Developing Knowledge
New research themes selected for funding by Netspar

Partner Profile
Achmea

Human Capital
Netspar – UM SBE Academy

Paper Page

Jan-Huug Lobregt:

"WE WANT TO UTILIZE EXPERT OPINIONS IN OUR PROJECTIONS."

On August 30, the Actuarial Association published its new projections for life expectancy in the Netherlands. Compared to earlier projections they show a substantial increase in life expectancy. Jan-Huug Lobregt, board member of the Actuarial Association, sheds light on this development.

Roel Mehlkopf

What is going on?

“The Actuarial Association has noted a clear increase in improvements in life expectancy. This trend started in 2001 and has accelerated in recent years. It is complicated to assess this development, because the period that we observe is rather short. It is therefore uncertain what the impact of this recent trend should be for our projections. However, there is a consensus in the actuarial community that the current trend is higher than usual. We have analyzed the causes of recent developments with medical experts and have identified, as main causes, the decline in the number of people who smoke and the related decline in cardiovascular disease. This, in combination with a rapid increase in welfare, is the main reason for the large improvements in life expectancy that we are observing.”
"There is no need to crunch the data to observe the increase in life expectancy. Today's 70-year-olds look younger and healthier than their counterparts ten or twenty years ago. A striking example is the new Dutch cabinet, which contains several ministers who are over 65. It is telling that these ministers feel capable and fit enough to fulfill such demanding jobs. Therefore, you don't need a crystal ball to say that today's septuagenarian has a higher potential to live to a high age compared to people who turned 70 ten or twenty years ago."

Is the rapid increase in life expectancy a temporary or a permanent trend?

"It is clear that the pace at which life expectancy increases will revert to normal levels at some point, because otherwise we would one day reach the age of 120. A striking feature of the data is that survival rates have improved for all age groups except the highest one. For 95-year-olds, the survival rate does not improve anymore. Someone who is 95 at the moment is expected to live for another two-and-a-half years. In our projections this remains unchanged to the year 2060. This suggests that there is an upper limit to human life expectancy. The high trend of the past decade is therefore incorporated in our projection model as a temporary trend. Indeed, several studies have pointed out that there is an upper bound to the life expectancy of humans. On the other hand, scientists experimenting with mice have been able to eliminate the gene that causes ageing and were able to reduce the decline in bodily functions dramatically."

When will the trend in life expectancy revert to normal levels?

"It is very difficult to predict when the high trend of the past decade will end. Therefore, the Actuarial Association is planning to cooperate more closely with other specialists, like the medical profession and CBS Netherlands. This will help us gain more qualitative insights that can be used for our projections. Medical experts, for example, may have a clear idea about the horizon at which the decline in smoking takes effect. Or how long we can continue to implement improvements in the treatment of cardiovascular disease. Or about the impact of diabetes developments. Today, diabetes can be treated much better than a decade ago, so this disease is less likely to shorten life expectancy than ten years ago. We also want to work more closely with CBS Netherlands, other research institutes and other professions who have more experience in using expert opinions for projections."

Have the projections for life expectancy become more uncertain?

"Uncertainty has increased because we do not know how long the high trend in life expectancy of the past decade will persist. For our projections for the year 2050, we currently work with a confidence interval of –5 years and +5 years. Uncertainty was lower in our projections in the 1990s."

The Actuarial Society and Netspar have recently signed a collaboration agreement. What do you expect from this joint effort?

"Two things. Firstly, I personally expect the education program for actuaries to receive a qualitative impulse, from both the new TiasNimbas Business School and the new actuarial program at the University of Amsterdam. In cooperation with TiasNimbas, an executive master program at academic level has been established. This new program will have a strong emphasis on practice, but it will also have a strong academic foundation. Several Netspar researchers will contribute to the new program. Secondly, I hope that the level of Dutch academic research in the field of actuarial science will improve since it is, in my opinion, quite weak at the moment. Academic research could help the Actuarial Society to deal with the recent developments in life expectancy when making our projections. To stimulate research in actuarial science, we have established the Johan de Witt award. This is granted to research that provides an important contribution to the actuarial practice."

Professor Johan Mackenbach:

"HEALTH IS KEY TO UNDERSTANDING RISING LIFE EXPECTANCY AND ITS IMPLICATIONS."

In recent years, pension funds and life insurers in the Netherlands have been taken aback by the rapid rise in life expectancy. Professor Johan Mackenbach (Erasmus MC) has analyzed the recent improvements in life expectancy and finds that they can probably be attributed to improvements in the Dutch health care system.

"The Netherlands had experienced only modest improvements in longevity in recent decades," he says. "Around 2002, this suddenly changed, and since then, there have been rapid improvements in life expectancy."

Roel Mehlkopf

What has been driving the recent improvements in life expectancy?

"Our research indicates that the recent improvements in life expectancy have been largely driven by improvements in health care for the elderly, which were facilitated by the alleviation of budgetary constraints in the Dutch health care sector," Mackenbach explains. "To give an illustration: until recently it was unusual to operate on cardiovascular patients over the age of 65, but now, less invasive techniques are available, such as placing a stent to treat coronary artery blockages. The number of 65+ patients to receive this treatment has risen enormously, and today stents are provided to patients of ages as high as 80 years old. As a second illustration, the percentage of elderly patients receiving statins to reduce cholesterol levels has risen spectacularly. In 2000, a patient over the age of 80 who was receiving statins was an exception. Today, statins are taken by a third of patients between the ages of 80 and 85. Such treatments have improved life expectancy and could be given because in 2002 the budgetary constraints in the health care sector were lifted, which led to a sharp increase in expenditures. The majority of this additional spending has benefited the elderly."

Roo Mehlkopf

The Actuarial Association (Actuarieel Genootschap) is the professional association of actuaries in the Netherlands, to which nearly all Dutch actuaries belong. In this interview, Roel Mehlkopf, board member of the Actuarial Association and consultant at PwC, discusses the recently published new projections for life expectancy in the Netherlands (AG Prognosetafel 2010–2060).
Many employees are worried about the proposed increase of the retirement age. They are concerned about their ability to continue practicing their profession until retirement. This is the main picture that arises from a survey that was conducted in January 2010 by PGGM among its members who work in the healthcare and welfare sector.

“The response to the survey was overwhelming and came as a complete surprise to us,” explains Susan Bruning – van der Werf, who is responsible for this survey. “A link to the survey was included in one of our regular email newsletters. Within four days, 18,215 people answered the survey, and over 6,000 bothered to answer the open question. We never expected such a large response.”

Susan Bruning–van der Werf:

“THE OVERWHELMING RESPONSE TO THE SURVEY CAME AS A SURPRISE TO US”

Roel Mehlkopf

The large response to the survey suggests that the proposed increase of the retirement age is a hot topic among employees.

“Yes, indeed. The results from the survey show that people are most concerned about the implications for the quality that they put into their work. Many respondents are unsure whether they will be able to continue to provide to patients the quality that they want or need to provide in their job. People have deliberately chosen to work in the health-care and welfare sector. They worry about their ability to remain active in this sector until retirement.

Many respondents have expressed this concern. They ask: ‘Will I still be accurate and alert enough?’, ‘Can I still assist patients to lift them from their beds?’, ‘Do people still want to encounter me in the emergency department when I am 64?’ Respondents are concerned about their ability to practice their profession until retirement, also about whether they will be taken care of in a later stage.’

Which group of workers is most concerned?

“Many respondents distinguish between jobs that involve contact with patients and supporting jobs such as ICT or management. For example, one respondent answered: ‘As a human resource manager, it is not a
Five new themes have been selected by Netspar for funding in the period from October 2010 through October 2013. One of the themes will be coordinated by Andrew Ang (Columbia University). The research in his group will focus on adequate investment strategies for retirement provisions, including aspects of long horizon, illiquidity and long-run tail risk for portfolio strategies.

The other four research projects are affiliated with Dutch academic partners. At the University of Groningen, Rob Alessie will be in charge of the “Pensions, Savings and Retirement Decisions II” project. Johan Mackenbach (Erasmus Medical Center) will investigate the causes and consequences of rising life expectancy in the Netherlands. “Human Capital and Aging” is the subject of theme project leader Thomas Dohmen and his research group at Maastricht University. The last project being sponsored deals with multi-pillar pension schemes in the Netherlands and macroeconomic performance and will be coordinated by Casper van Ewijk (CPB and UvA).

A total of 2 million Euros is being allocated to researchers in these themes. Researchers commit themselves to developing knowledge and sharing it through events and papers. In addition, they educate both graduate students and professionals on the topics of their research themes.
ACHMEA

These are tumultuous times in the world of pensions, as Netspar’s partner Achmea has experienced firsthand. Retirement pensions are being buffeted by three forces, in particular: low interest rates, increased life expectancy and low investment yields. The opportunities for providing pension security at a reasonable cost have been significantly curtailed. “But a good pension system is something worth fighting for. I view it as a nice challenge to sink my teeth into,” says Joos Nijtmans, Knowledge and Opinion Manager at Syntrus Achmea and a member of the partner council and editorial board of Netspar.

Sytrus is the division of Achmea that handles investment management and administration for over 70 industry, company and professional association pension funds. With managed assets of 57 billion euros, 14 billion of it in real estate, Sytrus Achmea is one of the larger institutional investors in the Netherlands. “Pension funds, along with insurers, are faced with the considerable challenge of continuing to meet the high expectations of their participants and customers even in these trying economic and financial times,” Nijtmans points out. “General confidence in insurers and pension funds has taken a hit in recent years. One of the things that played a role in this is that we tried to provide better pension products through innovation and customization. Unfortunately, all the good intentions notwithstanding, this created complicated schemes with attendant costs and risks that were difficult to explain to the public at large. I am sure everyone can recall all the talk about this over the past several years.”

Eureko/Achmea, the parent company of Zilveren Kruis Achmea, Centraal Beheer Achmea and Interpolis, among others, is the largest insurer in the Netherlands. The cooperate serves clients in both the employment-based and personal pension plan markets. Nijtmans feels that the worlds of pension funds and insurers still operate too much at cross purposes. “Pension fund products are clearly different than those of insurers,” he asserts. “In a pension fund, you have solidarity in the fact that risks are shared by all participants, whereas an insurer ‘assumes’ the risks of its customers: different products for different prices. But in terms of the basics, they have a lot in common. There is not a world of difference between them – certainly not in terms of the participants/customers’ inability to grasp the fundamentals of the scheme. There is something to be said for both systems, but it is essential, in any case, that the scheme be clear. Here at Sytrus Achmea, as well as among our colleagues at Centraal Beheer Achmea, Avéro Achmea and Interpolis, we are well aware of this challenge. You see these issues start to overlap in the discussions surrounding the agreement on the state pension plan: take, for instance, the suggestion to start with a defined benefits as the heart of the scheme, surrounded by layers of flexible benefits.”

Achmea is pleased that Netspar is studying such a wide range of pension issues and happy to contribute what it can. The company sees its primary mission as being to ensure a maintainable and affordable income for later (together with other stakeholders). This will involve understanding needs, making connections and delivering on promises. It is vital that the pension system be attuned to society’s needs. Nijtmans does have a practical observation to make on this point. “The greatest difficulty in this necessary reform of the system lies in transitioning from the old to the new,” he posits. “The contours of an ‘ideal’ new system can be fairly easily formulated at the proverbial drawing table, from an academic viewpoint. But the entitlements earned and interests of various generations make the transition complicated. You cannot get around the issue of real-location. So, the practical relevance of research is always an important issue.”

Netspar and Achmea have a lot in common. There is not a world of difference between them – certainly not in terms of the participants/customers’ inability to grasp the fundamentals of the scheme. There is something to be said for both systems, but it is essential, in any case, that the scheme be clear. Here at Sytrus Achmea, as well as among our colleagues at Centraal Beheer Achmea, Avéro Achmea and Interpolis, we are well aware of this challenge. You see these issues start to overlap in the discussions surrounding the agreement on the state pension plan: take, for instance, the suggestion to start with a defined benefits as the heart of the scheme, surrounded by layers of flexible benefits.”

Achmea sums up its hopes for future schemes in one simple message: simplification. “To make these schemes manageable and coherent, the basics must be simple,” Nijtmans says. “If a scheme can be explained easily, then it is solid and can be inexpensively managed. The Netherlands Authority for the Financial Markets rightly pointed to this in its recent study of the integrity of pension oversight bodies. Citizens and employees have become increasingly aware in the past year of the importance of a good pension scheme. It is pure profit. Now it is up to insurers and pension funds to create a pension system that will enjoy the broad support of the public. We can build on the sense of engagement to establish new relationships and confidence. The decisions to be made will have to be well-grounded and their effects calculated.”

But there is more at stake. “When we put people first,” says Nijtmans, “then the entire life history and financial planning also has to be taken into account. A pension is not a stand-alone item for people. We must tread carefully with workers’ labor capital, so that people are inspired to work toward a higher retirement age. A great deal of money is also spent on housing and, increasingly, healthcare. Achmea is active on all these fronts and we want to examine them in conjunction. In the pension sector this involves offering pension funds investments in health care real estate, for example. The funds become owners of the bricks and mortar sites where healthcare professionals work. Netspar also faces the challenge of uniting these diverse worlds.”
Netspar – UM SBE Academy

“APPARENTLY, SCIENTIFIC RESEARCH CAN OFFER PENSION INNOVATION.”

In September, Netspar – UM SBE Academy offered a two-day course on “Living Longer in Good Health,” presented in conjunction with theme researchers Johan Mackenbach (Erasmus MC) and Anja De Wagenaere (UvT), along with others. Netspar Magazine interviewed participant Peter Sijm (NN) on what makes these courses so interesting.

“In the past, we never dared to draw a linear trend line for longevity. Actuaries need this knowledge in pricing the risks, while product developers can use it in managing them,” says Sijm. He is also clear about one thing: “The myths about the care costs associated with unhealthy living were dispelled. Thus, participants were encouraged to discuss ways of bringing health care and pensions closer together. Apparently, scientific research is sometimes touched on but not fully explored: how to build/communicate a pension contract interesting enough for both the employer (who facilitates it) and the employee (who pays for and enjoys it).”

That is, indeed, a true challenge for the future.

RECENTLY PUBLISHED PAPERS

This page offers the recently published papers in the Netspar papers series. More papers and all pdf versions can be found on our website www.netspar.nl.

Discussion Papers (DP) are produced by all Netspar researchers and Ph.D. students who are involved in one or more Netspar research programs or themes. A DP aims at publication in high-standard scientific journals. It is usually the output of a research proposal funded by Netspar. It is published on the Netspar website jointly with a management summary. The DPs are discussed during Netspar activities and digitally published on our website and SSRN.

Bucciol, Alessandro and Roel Beetsma
Consequences for welfare and pension buffers of alternative methods of discounting future pensions (DP 09/2010-055)

Katzu, Tomek and Laura Spierdijk
Stock returns and inflation risk: implications for portfolio selection (DP 09/2010-053)

Ewijk, Casper van, Henri de Groot and Coos Santing
Retirement as a hedge (DP 05/2010-049)

Damman, Marleen, Kéne Henkens and Matthijs Kalmijn
Retirement of Dutch male older workers: the role of mid-life educational, work, health, and family experiences (DP 09/2010-043)

Davelande, Adeline and Susann Rohweder
Individuals’ uncertainty about future social security benefits and portfolio choice (DP 08/2010-042)

Hurd, Michael and Susann Rohweder
Effects of the financial crisis and great recession on American households (DP 09/2010-041)

Post, Thomas
Individual welfare gains from deferred life-annuities under stochastic mortality (DP 09/2010-044)

Post, Thomas and Katja Hanewald
Stochastic mortality, subjective survival expectations, and individual saving behavior (DP 09/2010-043)

Fehr, Hans and Christian Habermann
Private retirement savings and mandatory annuitization (DP 09/2010-042)

Hollander, David and Barbara Vis
Voters’ commitment problem and reforms in welfare programs (DP 09/2010-041)

Ewijk, Reyn van
Long-term health effects on the next generation of Ramadan fasting during pregnancy (DP 07/2010-042)

Inkmann, Joachim, Paula Lopes and Alexander Michaelides
How deep is the annuity market participation puzzle? (DP 07/2010-041)

Huang, Xiaohong and Ronald Mahieu
Performance persistence of Dutch pension funds (DP 08/2010-038)

Huang, Xiaohong and Ronald Mahieu
Guaranteeing benefits in generational pension plans (DP 07/2010-037)

Reuser, Mieke, Luc Bovenberg and Frans Willemsen
The effect of risk factors on the duration of cognitive impairment: A multistate life table analysis of the U.S. Health and Retirement Survey (DP 07/2010-036)

Bonenkamp, Jan, Lans Bovenberg, Casper van Ewijk and Ed Westerhout
How deep is the annuity market participation puzzle? (DP 07/2010-035)

Holjétta, Ren, Johan Mierau and Laurie Reijnders
The tragedy of annuitization (DP 07/2010-034)

Kalwij, Adriaan, Rob Alessie and Marieke Knoef
Pathways to retirement, income, and health: specific mortality risks in the Netherlands (DP 08/2010-033)

Keuschigg, Christian, Mirilea Keuschigg and Christian Jaag
Aging and the financing of social security in Switzerland (DP 03/2010-032)

Bikker, Jacob, Otto Steinbeek and Federico Torracchi
The impact of scale, complexity, and service quality on the administrative costs of pension funds: A cross-country comparison (DP 08/2010-031)

Hochguertel, Stefan
Self-employment around retirement age (DP 07/2010-030)
Haan, Peter and Victoria Prowse
The design of a uniform unemployment transfers: Evidence from a dynamic structural life-cycle model (DP 01/2010-040)

Fehr, Hans, Manuel Kallweit and Fabian Kindermann
Pension reform with variable retirement age - A simulation analysis for Germany (DP 01/2010-011)

Bonsang, Eric and Tobias Klein
Retirement and subjective well-being (DP 01/2010-010)

Sanders, Lisaanne, Anja de Waagenbeuke and Theo Nijman
When can insurers offer products that dominate delayed old-age pension benefit claiming? (DP 02/2010-009)

Karpińska, Kasia, Kene Henkens and Joop Schippers
Recruitment of early retirees: A vignette study of managers’ decisions (DP 04/2010-008)

D’Arbi, Hippolyte and Emmanuelle Auger-Gerond - Veron
Continuous-time overlapping generations models (DP 06/2009-006)

Klijis, Bart, Johan Macckenbach and Anton Kunst
Disability occurrence and proximity to death (DP 06/2009-095)

Klijis, Bart, Wilma Nusselder and Johan Mackenbach
Compression of morbidity: A promising approach to alleviate the societal consequences of population aging? (DP 06/2009-098)

Lindhout, Maarlen, Peter Lundberg and Mauro Mastrogiovanni
Pension plans and retirement replacement rates in the Netherlands (DP 01/2009-019)

Hopfenitz, Astrid and Tanja Wranik
How to adapt to changing markets: Experience and personality in a repeated investment game (DP 09/2009-006)

Panel Papers (PP) outline the implications of new developments in the academic literature for policy questions faced by Netspar’s partners. The PP’s are meant for professionals in the pension and insurance sectors and are discussed twice a year during one-day panel meetings. Representatives from academic and private sector partners, as well as international academics, act as discussants. The papers are published in a special PP booklet series.

Potters, Jan, Amo Riedl and Franziska Tausch
Preferences for redistribution and pension (PP10)

Dellaert, Benedict
Interactive online decision aids for complex consumer decisions (PP10)

Bissonnette, Luc and Arthur van Soest
Retirement expectations, preferences, and decisions (PP10)

NEA (Netspar Economic Advice) Papers
The authors present the NEA Papers at meetings and discuss them with the audience. NEA Papers are also published in a booklet series.

Bovenberg, Lance and Bart Boon
Now is the time. Oostpunt naar degresieve pensioenopbouw nu wenselijk en mogelijk (NEA 36)

Boeijen, Dick, Niels Korttieve and Jan Tamerus
Van toezegging naar ambitie (NEA 35)

Diebrodt, Gerry, Carol Hooghiemstra, Theo Nijman and Alwin Oerlemans
Decumulation of pensionwealths (NEA 34)

Jong, Frank de, and Antoon Polsaar
Horizon financiering toekomstkrediet (NEA 33)

Schut, Erik and Wynand van de Ven
Leidt uitoering door concurrerend zorgverzekeraars tot een doelmatige en financieel houdbare AWBZ? (NEA 32)

Colophon

To subscribe or unsubscribe, contact Netspar.

Netspar
Netspar is independent of the public sector.

Netspar simply offers a forum for in-depth discussion. The authors present the NEA Papers at meetings and discuss them with the audience. Although Netspar as such is impartial, individual researchers of Netspar may very well have (and express) a personal opinion.

Netspar simply offers a forum for in-depth discussion. The authors present the NEA Papers at meetings and discuss them with the audience. Although Netspar as such is impartial, individual researchers of Netspar may very well have (and express) a personal opinion. Netspar simply offers a forum for in-depth discussion.
Netspar, Network for Studies on Pensions, Aging and Retirement, started operations in 2005. It is a network connecting two main groups: pension practice and pension science. The first group consists of ministries, supervising agencies and other civil service institutions, pension funds, pension providers, insurance companies, banks, asset liability management companies. The second group consists of Dutch and non-Dutch pension researchers, and Dutch universities.

Core Values
The core values of Netspar are independence, accessibility for new entrants, and openness to dialogue and interaction between stakeholders. Netspar recognizes the importance of diverse types of knowledge, various disciplines, and methodological approaches. It does not support particular policy positions, but is instead dedicated to promoting a wider understanding of the economic and social implications of pensions and retirement. It strives to effectively disseminate unbiased research output among public policymakers, professionals and trustees in financial institutions and the academic community.

Mission
Netspar endeavors to bring the pension debate to a high level of sophistication and to create high-quality solutions for present and future challenges with respect to an aging society. Furthermore, Netspar aims to position the Netherlands as a center of knowledge on pensions and social security both in- and outside Europe, both in the academic and the financial world and in policy circles. With this, Netspar wants to safeguard sustainable pension and insurance systems that share risks equitably and efficiently. The strive is to set an example how public and private parties in the service industry can work together with researchers in the social sciences in an efficient and mutually beneficial way to stimulate social innovation. Next to that, Netspar strives to act as an intellectual conscience of the community active in pensions and social security.